

ALLEN COUNTY SCHOOL DISTRICT

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GOODMAN & COMPANY, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
10357 LINN STATION ROAD
LOUISVILLE, KENTUCKY 40223

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Allen County School District
Scottsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen County School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of Allen County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report date October 31, 2009, on our consideration of the Allen County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allen County School District's basic financial statements. Combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Allen County School District. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
October 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

ALLEN COUNTY SCHOOL DISTRICT – SCOTTSDALE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2009

As management of the Allen County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The District maintains 7 schools and education centers, serving approximately 3,000 students. An effort to centralize our schools has provided educational benefits in addition to good physical management. We have a campus of approximately 200 acres of which there is still land available for future construction to meet our long-range educational needs. Allen County is very proud of our facilities and our ability to maintain them; nevertheless, our main purpose is educating kids and providing quality instructional resources and staff which we are able to do with our general fund dollars.
- The beginning cash balance for the District was \$6.1 Million.
- The District continues to be concerned about the drain on the General Fund, which reflects our decline in the beginning balance. Concerted efforts were made to curb the declining balance by providing additional monies into the general fund from local tax revenues.
- The Superintendent and Finance department working in conjunction with other district leadership continues the refinement of the structure of the business and operations area, while evaluating processes and allocation of resources.
- The Superintendent and Finance department worked with staff to review and implement sound fiscal practices in utilizing school funding.
- A concerted effort was focused on purchasing in the areas of supplies, food and travel resulting in several economies due to changed management strategies. The District utilizes multi-district cooperative bidding through the Green River Regional Educational Cooperative, Kentucky Educational Development Corporation, as well as, taking advantage of state and federal bidding opportunities for purchasing of supplies and food.
- Local Revenue is divided 60%/40% between the general fund and the building fund respectively. We have no occupational, utility or excise taxes.
- The General Fund had \$19.4 million revenue, which primarily consisted of the state program SEEK (Support Educational Excellence in Kentucky), and local property and motor vehicle taxes. Excluding inter-fund transfers, there was \$19.3 million in General Fund expenditures.
- The board continues its obligation to escrow depreciation revenue as received from the state to provide funding to replace school buses as they go off the depreciation schedule. No school buses were purchased in 2008-09.

ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2009

- The District continues to evaluate policies & procedures dealing with fixed assets and GASB reporting to ensure correct inventories, values, and depreciation to correctly report on the Annual Financial Report.
- The District sold the building known as the Community Center (formerly Scottsville High School) in order to provide savings from utilities and maintenance costs of the building which was constructed in 1925.
- The Allen County School District completed the HVAC Renovation at James E. Bazzell Middle School and final stages of the High School Science wing were completed (security system and interactive classrooms). In addition, preliminary stages of the renovation of Allen County-Scottsville High School begun.
- The Allen County School Food Service had constructed a food storage building.

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2009**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-34 of this report.

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$24.7 million as of June 30, 2009.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NET ASSETS

A summary of the net assets for 2009 and 2008 are as follows:

	2009			2008		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Current Assets	\$ 7,019,383	\$ 712,241	\$ 7,731,624	\$ 6,162,309	\$ 655,979	\$ 6,818,288
Noncurrent Assets	<u>34,967,244</u>	<u>584,322</u>	<u>35,551,566</u>	<u>35,913,905</u>	<u>341,678</u>	<u>36,255,583</u>
Total Assets	\$ 41,986,627	\$ 1,296,563	\$ 43,283,190	\$ 42,076,214	\$ 997,657	\$ 43,073,871
Current Liabilities	\$ 2,284,230	\$ 17,985	\$ 2,302,215	\$ 2,272,995	\$ 9,047	\$ 2,282,042
Noncurrent Liabilities	<u>16,284,852</u>	<u>-</u>	<u>16,284,852</u>	<u>17,219,645</u>	<u>-</u>	<u>17,219,645</u>
Total Liabilities	\$ 18,569,082	\$ 17,985	\$ 18,587,067	\$ 19,492,640	\$ 9,047	\$ 19,501,687
Net Assets						
Investment in capital assets (net of debt)	\$ 17,990,466	\$ 584,322	\$ 18,574,788	\$ 17,902,654	\$ 341,678	\$ 18,244,332
Restricted	4,185,537	-	4,185,537	2,192,228	-	2,192,228
Unreserved Fund Balance	<u>1,241,542</u>	<u>694,256</u>	<u>1,935,798</u>	<u>2,488,692</u>	<u>646,932</u>	<u>3,135,624</u>
Total Net Assets	\$ <u>23,417,545</u>	\$ <u>1,278,578</u>	\$ <u>24,696,123</u>	\$ <u>22,583,574</u>	\$ <u>988,610</u>	\$ <u>23,572,184</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

NET ASSETS CON'T

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2009, net of interfund transfers, were \$27.7 million.
- General fund revenue was \$19.4 million or \$3.6 million higher than budget primarily due to state on-behalf payments.
- The total cost of all programs and services for the General Fund was \$19.3 million or \$1.2 million higher than budget.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2009 and June 30, 2008.

	<u>2009</u>			<u>2008</u>		
	<u>Government Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Program Revenues:						
Charges for services	\$ 118,694	\$ 590,337	\$ 709,031	\$ 81,945	\$ 757,331	\$ 839,276
Operating grants	3,465,867	1,124,561	4,590,428	3,579,937	1,063,882	4,643,819
Capital grants	528,277	-	528,277	-	-	-
General Revenues:						
Taxes	4,204,488	-	4,204,488	4,157,397	-	4,157,397
State aid formula grant	17,571,226	-	17,571,226	17,940,804	-	17,940,804
Investment earnings	96,311	7,240	103,551	227,911	24,098	252,009
Gain(loss)on sale of assets	(187,457)	-	(187,457)	-	-	-
Local revenues	<u>156,643</u>	<u>-</u>	<u>156,643</u>	<u>184,142</u>	<u>-</u>	<u>184,142</u>
Total Program Revenues	\$ 25,954,049	\$ 1,722,138	\$ 27,676,187	\$ 26,172,136	\$ 1,845,311	\$ 28,017,447
Transfers	(43,991)	43,991	-	293,219	(293,219)	-
Capital Contributions	<u>(301,927)</u>	<u>301,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	\$ 25,608,131	\$ 2,068,056	\$ 27,676,187	\$ 26,465,355	\$ 1,552,092	\$ 28,017,447
Program Expenses:						
Instruction	\$ 15,969,981	\$ -	\$ 15,969,981	\$ 16,614,918	\$ -	\$ 16,614,918
Student support	868,439	-	868,439	771,993	-	771,993
Instruction staff	989,177	-	989,177	1,084,631	-	1,084,631
District administration	609,272	-	609,272	353,065	-	353,065
School administration	1,313,865	-	1,313,865	1,224,254	-	1,224,254
Business support	387,508	-	387,508	387,519	-	387,519
Plant operations	2,201,513	-	2,201,513	2,228,083	-	2,228,083
Student transportation	1,495,761	-	1,495,761	1,614,263	-	1,614,263
Community Support	276,992	-	276,992	266,707	-	266,707
Interest on long-term debt	661,652	-	661,652	692,058	-	692,058
Food service	-	1,778,088	1,778,088	-	1,793,545	1,793,545
Day care	-	-	-	-	<u>152,785</u>	<u>152,785</u>
Total Expenses	\$ 24,774,160	\$ 1,778,088	\$ 26,552,248	\$ 25,237,491	\$ 1,946,330	\$ 27,183,821
Net Increase in Assets	\$ <u>833,971</u>	\$ <u>289,968</u>	\$ <u>1,123,939</u>	\$ <u>1,227,864</u>	\$ <u>(394,238)</u>	\$ <u>833,626</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSDALE KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

Governmental Activities

Instruction comprises 64% of governmental program expenses in 2009 versus 66% in 2008. Support services expenses make up 33% of government expenses in 2009 compared to 32% for the prior year. The remaining expense for interest accounts for 3% of total government expense for 2009 versus 2% for the prior year.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

	<u>2009 Governmental Activities</u>		<u>2008 Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 15,969,981	\$ 12,912,387	\$ 16,614,918	\$ 13,572,281
Support	8,142,527	7,615,560	7,930,515	7,311,270
Interest on long-term debt	<u>661,652</u>	<u>133,375</u>	<u>692,058</u>	<u>437,092</u>
Total Expenses	<u>\$ 24,774,160</u>	<u>\$ 20,661,322</u>	<u>\$ 25,237,491</u>	<u>\$ 21,320,643</u>

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of \$2,068,056 and expenses of \$1,778,088 for fiscal year 2009. Of the revenues, \$590,337 was charges for services, \$1,124,561 was from State and Federal grants, and \$7,240 was from investment earnings. Business activities receive no support from tax revenues.

Capital Assets

At the end of fiscal year 2009 the School District had \$35.6 million invested in land, buildings, equipment, and construction in progress. The following table shows fiscal year 2009 and 2008 balances:

Capital Assets at June 30, 2009 and 2008
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 1,045,229	\$ 1,045,229	\$ -	\$ -	\$ 1,045,229	\$ 1,045,229
Land Improvements	1,089,663	1,178,654	9,447	-	1,099,110	1,178,654
Building & Improvements	31,281,281	30,478,765	283,913	-	31,565,194	30,478,765
Technology	800,383	987,209	13,427	15,737	813,810	1,002,946
Vehicles	627,150	762,793	-	-	627,150	762,793
Equipment	123,538	155,351	277,535	325,941	401,073	481,292
Construction in Progress	-	1,305,904	-	-	-	1,305,904
Total Governmental Activities	<u>\$ 34,967,244</u>	<u>\$ 35,913,905</u>	<u>\$ 584,322</u>	<u>\$ 341,678</u>	<u>\$ 35,551,566</u>	<u>\$ 36,255,583</u>

The table below shows the changes in capital assets for the fiscal years 2009 and 2008.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Beginning Balance	\$ 35,913,905	\$ 36,351,009	\$ 341,678	\$ 397,896	\$ 36,255,583	\$ 36,748,905
Additions	2,058,096	1,030,555	302,727	-	2,360,823	1,030,555
Retirements	(1,561,103)	-	-	-	(1,561,103)	-
Depreciation	<u>(1,443,654)</u>	<u>(1,467,659)</u>	<u>(60,083)</u>	<u>(56,218)</u>	<u>(1,503,737)</u>	<u>(1,523,877)</u>
Ending Balance	<u>\$ 34,967,244</u>	<u>\$ 35,913,905</u>	<u>\$ 584,322</u>	<u>\$ 341,678</u>	<u>\$ 35,551,566</u>	<u>\$ 36,255,583</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2009**

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$ 862,913 in contingency (5%).

The beginning General Fund cash balance for beginning the 2009 fiscal year is \$2.4 million. Significant Board action that impacts the finances included a 1% pay raise for certified and classified employees. The General Fund also must match dollars for federal and state grants. The district currently participates in approximately 34 state and federal grants. The total budget for these grants is \$4 million. Applying for grant reimbursements and monitoring the grants is something the district must do constantly. While waiting for grants to be reimbursed, the district must maintain a significant cash balance in order to pay these expenses in advance.

Local property tax revenue makes up approximately 14% of the general fund revenue. Property taxes are levied annually usually in October on the assessed value for all real and personal property, as well as motor vehicles in the district as of January 1st of the prior year. However, this revenue is not received until the months of November – February which means that the general fund's beginning balance is used to pay much of the first few months of expenditures. It is very important to have a substantial beginning balance to start the beginning of each year.

Questions regarding this report should be directed by mail to: Superintendant Randal Jackson, Allen County Schools, 570 Oliver Street, Scottsville, KY 42146.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

ALLEN COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2009

Total fund balance per fund financial statement	\$ 6,668,849
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	34,967,244
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(18,218,548)</u>
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Net Assets for Governmental Activities	<u>\$ 23,417,545</u>
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See accompanying notes to financial statement

ALLEN COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

Net change in total fund balances per fund financial statements	\$ 870,150
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(1,122,762)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	935,487
Bond Interest Payments	31,268
Sick Leave	132,322
Bond Discount and Expense	<u>(12,494)</u>
Change in Net Assets of Governmental Activities	<u>\$ 833,971</u>

See accompanying notes to financial statement

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Allen County Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Allen County School District. The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Allen County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board also include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing Board. Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Allen County School District Finance Corporation – In July 1985, the Allen County, Kentucky, Board of Education resolved to authorize the establishment of the Allen County School District Finance Corporation (a non-profit, non-stock, public, and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The board members of the Allen County Board of Education also comprise the Corporation’s board of directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 42. This is a major fund of the District.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. The FSPK Fund is a major fund.
3. The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds. In applying the use of resources, the District uses restricted resources before using unrestricted resources.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund operations were \$.544 per \$100 valuation for real property, \$.559 per \$100 valuation for business personal property and \$.518 per \$100 valuation for motor vehicles.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
General equipment	5-15 years

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2009 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases and, accumulated sick leave, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for construction projects and SFCC escrow requirements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals and day care fees provided by the various schools.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2009, none of the District's bank balance including agency funds of \$7,487,118 was exposed to custodial credit risk.

NOTE D – LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make payments relating to the bonds issued by the Allen County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>ISSUE</u>		
1997	\$ 8,440,000	5.44%
2003	8,100,000	9.94%
2003 R	2,190,000	1.85%
2004	1,320,000	4.14%
2005 R	5,650,000	3.48%
2005	4,020,000	3.95%
2006	565,000	4.10%
2007	690,000	3.94%
Total	<u>\$ 30,975,000</u>	

**ALLEN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009**

NOTE D – LONG-TERM OBLIGATIONS CONTINUED

The District, through the General Fund, (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Allen County Fiscal Court and the City of Scottsville to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2009 for debt service (principal and interest) are as follows:

	ALLEN COUNTY			STATE			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total</u>
6/30/2010	935,911	538,282	1,474,193	144,089	110,876	254,965	1,729,158
6/30/2011	966,279	509,323	1,475,602	148,721	106,246	254,967	1,730,569
6/30/2012	1,001,113	477,805	1,478,918	153,887	101,078	254,965	1,733,883
6/30/2013	1,030,604	443,422	1,474,026	159,396	95,566	254,962	1,728,988
6/30/2014	1,069,709	407,508	1,477,217	165,291	89,673	254,964	1,732,181
6/30/15-19	4,921,610	1,443,632	6,365,242	873,390	348,714	1,222,104	7,587,346
6/30/20-25	3,749,114	580,101	4,329,215	935,886	164,135	1,100,021	5,429,236
6/30/26-28	<u>871,500</u>	<u>36,784</u>	<u>908,284</u>	<u>238,500</u>	<u>16,859</u>	<u>255,359</u>	<u>1,163,643</u>
Grand Total	<u>\$ 14,545,840</u>	<u>\$ 4,436,857</u>	<u>\$ 18,982,697</u>	<u>\$ 2,819,160</u>	<u>\$ 1,033,147</u>	<u>\$ 3,852,307</u>	<u>\$ 22,835,004</u>

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE D – LONG-TERM OBLIGATIONS CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$18,420,000	\$ -	\$ 1,055,000	\$ 17,365,000	\$ 1,080,000
Accrued sick leave	<u>333,039</u>	<u>176,262</u>	<u>132,322</u>	<u>376,979</u>	<u>135,000</u>
Governmental Activities:					
Long-term liabilities	<u>\$18,753,039</u>	<u>\$ 176,262</u>	<u>\$1,187,322</u>	<u>\$ 17,741,979</u>	<u>\$ 1,215,000</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

NOTE E – RETIREMENT PLANS

The Allen County Public Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publically available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS and 10.855% for new employees beginning July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. For members hired after July 1, 2008 the employee matching rates are 14.105%.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE E – RETIREMENT PLANS CONTINUED

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

The Allen County Public School District's total payroll for the year was \$15,462,928. The following table shows the salaries and contributions for employees covered under KTRS:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
KTRS Salaries	\$11,626,871	\$11,520,029	\$10,898,581
Commonwealth Contributions	\$ 1,380,962	\$ 1,373,254	\$ 1,342,667
School District Contributions	\$ 144,656	\$ 136,446	\$ 85,591

The School District's contribution represents employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% for those employees participating in CERS before September 1, 2008 and 6% for those employees participating in CERS on or after September 1, 2008 and a District contribution for the years ended June 30, 2009, 2008, 2007 of 13.50%, 16.18% and 13.19% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The following table shows the salaries and contributions for employees covered under CERS:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
CERS Salaries	\$ 3,621,631	\$3,706,432	\$3,617,226
Districts Contributions	\$ 488,919	\$ 599,330	\$ 477,379
Employee Contributions	\$ 181,670	\$ 185,324	\$ 180,962

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on this financial statement.

NOTE F - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfactions that the funds provided are being spent as intended and the grantors' intent to continue their programs.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE G- LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE H – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies that are retrospectively rated which include Workers' Compensation insurance.

NOTE I – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notices. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE J – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

	BALANCE JULY 1, 2008	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2009
Governmental Activities:				
Non-Depreciable Assets				
Land	\$ 1,045,229	\$ -	\$ -	\$ 1,045,229
Construction in progress	1,305,904	-	(1,305,904)	-
Depreciable Assets				
Land improvements	2,086,869	40,883	(27,301)	2,100,451
Buildings and building improvements	39,761,121	1,856,642	(903,499)	40,714,264
Technology equipment	3,084,911	155,709	(313,557)	2,927,063
Vehicles	2,845,089	-	-	2,845,089
General equipment	888,478	4,862	-	893,340
Totals at historical cost:	<u>\$51,017,601</u>	<u>\$ 2,058,096</u>	<u>\$ (2,550,261)</u>	<u>\$50,525,436</u>
Less Accumulated Depreciation For:				
Land improvements	\$ 908,215	\$ 102,573	\$ -	\$ 1,010,788
Buildings and building improvements	9,282,702	827,085	(676,458)	9,432,983
Technology equipment	2,097,702	341,678	(312,700)	2,126,680
Vehicles	2,082,296	135,643	-	2,217,939
General equipment	733,127	36,675	-	769,802
Total accumulated depreciation:	<u>\$15,103,696</u>	<u>\$ 1,443,654</u>	<u>\$ (989,158)</u>	<u>\$15,558,192</u>
Governmental Activities Capital Assets Net	<u>\$35,913,905</u>	<u>\$ 614,442</u>	<u>\$ (1,561,103)</u>	<u>\$34,967,244</u>
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional	\$ 1,197,381			
Student support services	1,333			
Staff support services	7,956			
District administration	73,172			
School administration	5,388			
Business support services	690			
Plant operation & maintenance	31,589			
Student transportation	125,566			
Community service operations	579			
Total	<u>\$ 1,443,654</u>			
Business Type Activities:				
Land improvements	\$ -	\$ 9,690	\$ -	\$ 9,690
Buildings and building improvements	-	287,750	-	287,750
Technology equipment	30,181	-	(800)	29,381
Vehicles	-	-	-	-
General equipment	791,939	5,287	-	797,226
Construction	-	-	-	-
Totals at historical cost:	<u>\$ 822,120</u>	<u>\$ 302,727</u>	<u>\$ (800)</u>	<u>\$ 1,124,047</u>
Less Accumulated Depreciation For:				
Land improvements	\$ -	\$ 243	\$ -	\$ 243
Buildings and building improvements	-	3,837	-	3,837
Technology equipment	14,444	2,310	(800)	15,954
Vehicles	-	-	-	-
General equipment	465,998	53,693	-	519,691
Total accumulated depreciation:	<u>\$ 480,442</u>	<u>\$ 60,083</u>	<u>\$ (800)</u>	<u>\$ 539,725</u>
Proprietary Activities Capital Net	<u>\$ 341,678</u>	<u>\$ 242,644</u>	<u>\$ - -</u>	<u>\$ 584,322</u>

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

NOTE K – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance or net assets. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund equity:

FSPK Fund	\$ 1,259,564
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NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE M - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Transfer	\$ 58,761
FSPK	Debt Service	Bond Payment	1,207,126
SEEK	Debt Service	Bond Payment	273,310
FSPK	Construction	Transfer	<u>2,790,942</u>
			\$ 4,330,139
Construction	Food Service	Capital Contribution	301,927
Construction	Food Service	Transfer	<u>43,991</u>
			<u>\$ 4,676,057</u>

NOTE N – CAPITAL LEASES

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2009:

<u>Year Ending</u>	<u>Capital Lease Payable</u>
06/30/2010	\$ 77,216
06/30/2011	77,216
06/30/2012	<u>77,216</u>
Total minimum lease payments	\$231,648
Less: Amount representing interest	<u>(16,015)</u>
Present Value of Net Minimum Lease Payments	<u>\$215,633</u>

The gross amount of capital lease assets is \$ 215,633, accumulated depreciation totals \$ 3,593 leaving a net book value of \$ 212,040.

ALLEN COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009**

NOTE O – INTERFUND RECEIVABLE AND PAYABLES

There were no interfund receivables and payables at June 30, 2009.

NOTE P – ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

The government-wide financial statements include \$3,848,342 of on-behalf payments and fringe benefits paid by the state. \$2,467,380 is for health insurance, and \$1,380,962 is for pension benefits.

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

HIGH SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Allen County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2009, the District received commodities totaling \$64,552 for the year.

NOTE C – SUBRECIPIENTS

The District has no subrecipients for the fiscal year ended June 30, 2009.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ALLEN COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes _____Xno
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____yes _____Xnone reported

Noncompliance material to financial statements noted? _____yes _____Xno

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes _____Xno
- Significant deficiency(ies) identified that is not considered to be material weakness(es)? _____yes _____Xnone reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____yes _____Xno

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553-9
84.027,84.391,84,392 & 84.173

Child Nutrition Cluster
Special Education Cluster

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____Xyes _____no

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

ALLEN COUNTY SCHOOL DISTRICT

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2009**

There were no prior year audit findings.

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING
AND ON COMPLIANCE AND
OTHER MATTERS
BASED ON AN AUDIT OF
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Education
Allen County School District
Scottsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen County School District as of and for the year ended June 30, 2009, which collectively comprise Allen County School District's basic financial statements and have issued our report thereon dated October 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, and III of the *Independent Auditor's Contract*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

The material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allen County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, we noted no instances of noncompliance with specific state statutes as listed in Appendix II of the *Independent Auditor's Contract*.

We noted certain other matters that we reported to the management of Allen County School District in a separate letter dated October 31, 2009.

This report is intended solely for the information and use of management, the members of the Allen County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
October 31, 2009

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education
Allen County School District
Scottsville, Kentucky

Compliance

We have audited the compliance of the Allen County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Allen County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Allen County School District's management. Our responsibility is to express an opinion on Allen County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I, II and III of the *Independent Auditor's Contract*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allen County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allen County School District's compliance with those requirements.

In our opinion, Allen County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Allen County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allen County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A control deficiency in a Board's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Board's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the members of the Allen County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
October 31, 2009

COMMUNICATION WITH DISTRICT BOARD

State Committee for School District Audits
Members of the Board of Education
Allen County Board of Education
Scottsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Allen County School District for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 15, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Allen County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was:

Management's estimate of the accrued sick leave is based on expected future employee retirements. We evaluated the key factors and assumptions used to develop the accrued sick leave estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2009.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
October 31, 2009

MANAGEMENT LETTER

Members of the Board of Education
Allen County School District
Scottsville, Kentucky

In planning and performing our audit of the basic financial statements of Allen County School District for the year ended June 30, 2009, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated October 31, 2009, contains our report on the District's internal control. This letter does not affect our report dated October 31, 2009, on the financial statements of Allen County Board of Education.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, the members of the Allen County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C
Certified Public Accountants
Louisville, Kentucky
October 31, 2009

COMMENTS

COMMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Status of Prior Year Management Letter Points

The Superintendent conferred with school principals on the issue of P.T.A. or P.T.O. and with regard to proper oversight. The Superintendent and Principals are in the process of working with SBDM and parent teacher groups on following proper accounting procedures, and submitting copies of their monthly reports and IRS filings to the Superintendent for review.

Current Year Management Letter Point # 1

Fixed asset reporting. The staff for the district has not mastered the details for controlling fixed asset reporting. The reports for GASB 34 were late and inaccurate. It is suggested a continuing education class regarding the software for the accounting staff be considered or someone knowledgeable from Frankfort to be engaged to review the software on site with the district's staff.

Management's Response

The Fixed Assets Coordinator will continue to gain knowledge of the Fixed Assets program and its relationship to the General Ledger to correctly report on the Annual Financial Report. It is important that the accounting staff have a thorough understanding of the entire process and will make a concerted effort to achieve this.

Current Year Management Letter Point # 2

Purchase orders. According to existing procedures purchase orders only have to be signed by the "superintendent or his designated representative". It is recommended that the person submitting the purchase order be required to sign it too. This change would strengthen internal control.

Management's Response

The district implemented the change in procedures to require two signatures on each purchase order.